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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 298 April, 1985

Business in Virginia March, 1985 Data

Last month the Virginia data were full of surprises. This month most of the information was about what we expected. That is good news for two reasons. First, repeated shocks are most disconcerting, to all Virginians as well as economists who are trying to develop some perspective on what is happening in the Commonwealth. More importantly, the reports released in April showing the recent national economic performance have been a steady stream of surprises, mainly unpleasant. The fact that the recent Virginia results did not mirror the national developments is a tribute to the strength and self-sustaining momentum we have observed in the State's economy. We still will have the normal month-to-month fluctuations, often quite large, which are to be expected during a maturing expansion. But, the Commonwealth still generally is outperforming the nation and can be expected to continue to do so.

State nonagricultural data for February, the latest available, showed a 4.8 percent gain over February, 1984. That is a slower growth rate than the 5.4 percent rate in January, and the growth rate will continue to move lower during the rest of the year. However, Virginia's cumulative gain for January and February was 5.0 percent, far surpassing the national growth of less than three percent.

The retail sales data continue to indicate fluctuations in the types of goods being demanded and wide month-to-month variations in individual metropolitan areas. However, the Statewide relationships are beginning to display more logical patterns. Taxable retail sales in Virginia increased 11.1 percent in February compared to the same month last year. Such a gain was a normal rebound from the very low growth, .8 percent, in January. The February taxable sales gain also was larger than the February Statewide increase of 7.1 percent in our retail sales sample. That, too, is a more logical relationship, since the taxable sales data include all retail businesses, new and old, while our sample contains the same number of retail businesses in each period. The March growth rate for the Bureau's sample was 2.5 percent, a drop from the strong February gain and parallel to the national slowing of retail spending.

The national retail sales figures most comparable to our two series are retail sales excluding the automotive group, not adjusted for seasonal variations and trading-day differences. The cumulative national growth year-over-year in this measure was 3 percent for January-February and January-March. In contrast, Virginia's taxable sales grew by a cumulative 5.8 percent for January-February; and the Bureau sample, by 8.5 percent for January-March. Both Virginia data series indicate retail trade in Virginia in 1985 has been growing at about twice the national pace, or better.

New car registrations in March rebounded to double-digit growth, 15.0 percent, after declining to a 6.3 percent pace in January. Look for this growth rate to decline again in the coming months to a more sustainable pace. Building permit growth continued to slow, down to 3.4 percent in March compared to the very high levels of last year. Construction activity remains strong even at the lower growth rate. Overall, the Commonwealth's economy remains in more robust health than the national economy.

For the individual metropolitan areas, the cumulative percent changes in Table III are the most appropriate data to review, since they average out some of the recent large month-to-month fluctuations. Northern Virginia (labeled the Alexandria area in the table) has been the definite leader in employment growth, and very strong across nearly all the indicators. The Greater Fredericksburg area also has continued to show substantial cumulative gains in most categories. The Tidewater region, both the Newport News-Hampton and Norfolk-Portsmouth-Virginia Beach areas, has maintained its strong growth in 1985. So far, these are the most consistent leaders. RLP

Chart I

Nine Selected Business & Economic Indicators Percentage Change

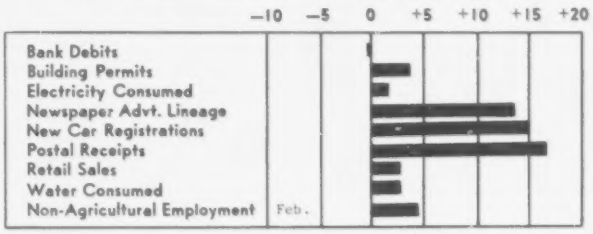
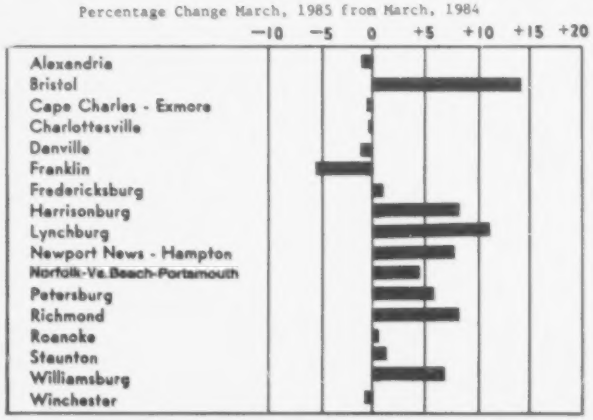


Chart II

City Indices



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I March, 1985

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	FEBRUARY NON AGRICULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES +	POSTAL RECEIPTS
The State		288.8	221.9	128.9	100.2	263.5	340.8	84.9	178.6	123.2
Alexandria	126.9	219.8	657.1	132.1	N.A.	87.1	157.9	94.5	149.2	N.A.
Bristol	148.7	29.0	117.9	116.4	78.8	65.1	104.7	89.1	179.8	300.9
Cape Charles - Exmore	118.0	61.2	137.1	110.9	N.A.	61.8	N.A.	N.A.	111.2	201.5
Charlottesville	162.5	345.1	150.8	120.5	N.A.	86.2	103.7	105.9	169.8	322.3
Danville	97.5	N.A.	95.8	96.8	126.9	73.8	98.0	81.8	45.3	264,6
Franklin	123.2	N.A.	416.6	107.8	128.8	68.9	N.A.	89.1	109.4	262.4
Fredericksburg	181.7	79.3	178.8	N.A.	146.9	129.1	N.A.	56.9	179.7	399.6
Harrisonburg	152.0	40.4	641.0	N.A.	136.7	74.7	N.A.	113.7	158.1	264.9
Lynchburg	249.6	376.9	164.3	117.6	N.A.	79.1	94.7	104.2	164.7	952.4
Newport News - Hampton	106.0	167.7	295.3	115.3	93.2	67.5	123.3]	120.9	115.0	N.A.
Norfolk - Va. Beach - Portsmouth	132.8	278.2	257.4	143.1	102.8	78.2		69.7	178.5	N.A.
Petersburg	117.7	107.2	77.4	N.A.	44.1	40.5	114.6]	91.0	134.0	246.1
Richmond	134.5	297.2	310.7	143.2	122.6	84.4		99.4	115.0	281.0
Roanoke	148.9	455.0	132.3	106.9	148.4	57.0	110.1	92.9	162.5	298.3
Staunton	121.7	113.2	685.0	N.A.	81.9	69.7	N.A.	N.A.	112.5	241.3
Williamsburg	148.7	129.4	356.5	151.1	N.A.	83.9	N.A.	72.1	132.1	337.6
Winchester	149.6	240.7	53.4	129.0	N.A.	90.5	N.A.	124.9	111.7	367.7

TABLE II March, 1985

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	FEBRUARY NON AGRICULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES +	FEB. RETAIL SALES ‡
The State		-0.1	3.4	1.3	13.8	15.0	4.8	2.5	2.5	11.1
Alexandria	-1.1	-6.2	-17.9	0.1	N.A.	-0.3	8.8	7.6	-4.7	11.9
Bristol	14.2	-11.5	41.2	-0.7	2.9	-10.9	4.7	18.0	30.1	1.6
Cape Charles - Exmore	-0.5	-42.7	-55.1	1.7	N.A.	-11.6	N.A.	2.1	1.6	4.0
Charlottesville	-0.1	19.9	-33.8	-1.8	N.A.	2.3	5.5	1.8	-1.0	8.5
Danville	-1.7	N.A.	-49.0	-8.8	24.5	-15.6	2.1	5.8	-5.9	-3.8
Franklin	-5.6	N.A.	619.4	-5.8	-2.4	-25.0	N.A.	2.6	-2.8	44.8
Fredericksburg	1.5	-1.9	70.1	N.A.	9.4	12.9	N.A.	3.3	-5.8	53.9
Harrisonburg	8.0	-61.8	54.2	N.A.	14.9	40.4	N.A.	2.6	-3.3	2.3
Lynchburg	11.3	-7.1	-14.1	-2.9	N.A.	15.1	1.9	2.3	17.8	-3.1
Newport News - Hampton	7.9	-17.5	24.0	2.5	14.9	-2.8	5.0]	12.2	9.6	13.0
Norfolk - Va. Beach - Portsmouth	4.7	7.7	12.6	5.4	17.4	-0.2		-8.3	6.3	15.8
Petersburg	5.6	-2.8	6.8	N.A.	-1.4	-19.4	1.8]	2.7	17.2	10.2
Richmond	7.7	-0.8	5.7	2.4	13.8	9.8		10.9	5.6	18.0
Roanoke	0.2	2.2	88.8	1.9	10.2	-3.4	5.5	-9.3	0.6	-4.3
Staunton	1.6	13.2	1295.4	N.A.	8.9	15.6	N.A.	N.A.	-5.5	28.3
Williamsburg	6.8	-26.9	-51.0	5.0	N.A.	-2.9	N.A.	-10.4	16.4	47.6
Winchester	-0.5	12.5	8.0	0.0	N.A.	3.4	N.A.	-3.7	-0.9	6.8

TABLE III

Percentage Change January - March from same period last year

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	JAN.-FEB. NON AGRICULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES +	JAN.-FEB. RETAIL SALES‡
The State		2.1	7.2	2.8	9.4	-1.0	5.0	1.8	8.5	5.8
Alexandria	5.4	-9.9	79.3	3.0	N.A.	-1.5	10.1	7.7	7.7	8.9
Bristol	11.5	-19.0	-0.1	-1.2	5.7	-13.4	3.5	7.2	27.4	-4.7
Cape Charles - Exmore	-3.6	-26.2	-45.5	-1.9	N.A.	-14.4	N.A.	-1.1	-1.3	0.1
Charlottesville	0.2	12.3	-84.1	2.1	N.A.	0.4	5.9	-2.1	0.3	-13.1
Danville	-1.6	N.A.	-71.3	-3.3	14.4	-15.9	1.4	5.9	-4.2	-6.3
Franklin	2.1	N.A.	424.7	1.6	-1.3	-1.2	N.A.	1.7	4.7	-9.8
Fredericksburg	1.5	-1.6	46.1	N.A.	10.1	10.5	N.A.	-2.1	-3.1	11.8
Harrisonburg	4.1	5.4	24.3	N.A.	7.7	26.4	N.A.	2.2	-3.9	6.0
Lynchburg	9.4	-15.1	-17.0	-1.6	N.A.	-1.2	0.3	-6.7	22.0	-4.7
Newport News - Hampton	12.6	-15.8	29.1	3.8	11.5	-4.3	5.1]	10.0	22.4	12.8
Norfolk - Va. Beach - Portsmouth	9.4	29.6	-3.9	5.2	13.8	0.7		-5.8	16.7	12.6
Petersburg	9.8	-14.9	-17.7	N.A.	-8.2	-13.3	0.9]	-1.4	27.3	7.1
Richmond	6.8	0.2	51.8	3.1	5.9	-0.3		6.5	10.9	5.1
Roanoke	2.2	-3.5	71.5	2.7	10.1	1.1	5.5	-8.4	3.4	-5.3
Staunton	-2.2	13.4	286.8	N.A.	-2.2	0.6	N.A.	N.A.	-3.1	11.8
Williamsburg	4.6	-22.1	-21.3	5.6	N.A.	-7.7	N.A.	-11.5	13.8	41.2
Winchester	-2.1	10.0	-20.1	-1.0	N.A.	-2.2	N.A.	-2.9	-2.2	10.9

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.

#Virginia Employment Commission data which lags behind current reports.

+Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.

] Only total MSA data are available for these areas.

The Current Plight of National Demand and Output

On April 18 the Department of Commerce shocked forecasters as well as the public with the report that preliminary estimates showed our nation's real output grew at a meager 1.3 percent annual rate in the first quarter, the lowest rate in any quarter since the recovery began at the end of 1982. What happened? Can we do better? What changes will insure we actually do better? This month's commentary provides one perspective and our views on some of the elements. A summary of the first quarter data is given in Table IV, along with the comparable fourth quarter data. All of the amounts are stated in 1972 dollars to remove the effects of inflation, and our analysis of levels and growth rates is entirely in real, or inflation-adjusted terms: real output, real demand, and real growth.

In the November, 1984 issue we stated, "The nation not only will have the demand, but also the production capacity and monetary growth to achieve an annual rate of growth of 4 percent in the first half of 1985." That statement was true in the first quarter and will remain true in the second. Most importantly, the *demand* existed in the first quarter. Total domestic demand consists of personal consumption demand, business investment in plant and equipment (non-residential fixed investment), demand for new housing (residential fixed investment), additions to business inventories, and government demand for goods and services. As shown in Table IV, the total domestic demand grew at a 4.4 percent annual rate in the first quarter, more than sufficient to produce a 4.0 percent annual growth rate for real output. But, domestic demand is our demand for *all* goods and services, not just goods and services produced in the United States. Every one of those demand components includes some purchases of imported goods or services. While domestic demand increased by $18.3 billion (in 1972 dollars), the inflation adjusted level of imports rose $9.6 billion in the first quarter. Therefore 52.5 percent of the increased real domestic demand was satisfied by higher quantities of imports. That was the leak, or for many industries the flood, which meant high domestic demand growth did not produce comparable growth in U.S. output. Of course, the nation's industries also produce to meet foreign demand, not just domestic demand. If real exports (1972 dollars) had risen by $9.6 billion, offsetting the higher imports, our output would have grown at a 4.5 percent annual rate in the first quarter. Instead, real exports fell by $3.1 billion. The combined effect was that exports minus imports, or net exports, fell by $12.7 billion. Therefore an $18.3 billion real increase in domestic demand was accompanied by only a $5.6 billion increase in U.S. output, the Gross National Product (GNP), measured in 1972 dollars. Translated into annual growth rates, that meant our real GNP growth rate was over 3 percent below what it could have been.

Can U.S. output growth improve in the second quarter? Domestic demand will continue to grow in real terms at a 4 to 4.5 percent annual rate. Consumer demand grew by 4.7 percent in the first quarter, in spite of the March decline. That decline was the result of February and March decreases in disposable personal income caused by the much-publicized delays in Federal tax refunds. If the refunds had been on schedule, the real (inflation-adjusted) disposable income in March would have shown an increase. Those refunds *are* coming; plus, all other categories of personal income still are rising except for farm income and unemployment receipts. With rising income, healthy consumer demand growth still will be our major strength in the second quarter. Housing expenditures in real terms also will increase. As Table IV shows, the residential fixed investment was basically unchanged from the fourth quarter 1984 to the first quarter of this year. However, building permits and housing starts have been growing, which means higher construction expenditures will occur in the second quarter. With substantial consumption and housing construction growth plus only minimal growth among the other three domestic demand categories, business fixed and inventory investment and government purchases, real domestic demand would increase by $18 billion in the second quarter, a 4.3 percent annual growth rate.

If net exports remain at their first quarter *level* of -$26.1 billion, then the U.S. output also would increase by $18 billion. That means an annual rate of growth in real GNP of 4.4 percent. On the other hand, a continued decline in net exports to a level of -$30.1 billion would drain one percentage point from the real growth rate, lowering it to 3.4 percent. What will happen to net exports? The value of the dollar is declining modestly, and our companies are fighting hard to stem the tide of foreign gains. Our view is the real value of net exports will not reach -$30 billion, leaving the prospect open for real growth in U.S. output of 4-4.5 percent in the second quarter.

What is necessary to remove the net export wedge between domestic demand and U.S. production? Many industries have been severely hurt, but for the nation the tide will turn as foreign nations grow more rapidly and the U.S. dollar moves to an appropriate value. Fair trade policies always are desirable. But, not closed door policies — in the long run they would shut foreign markets to us and reduce growth. For now, *minimal* voluntary action by the public — consumers, businesses, and government — would eliminate the problem. Review the first quarter numbers. Real domestic demand was $1,694.1 billion. One percent of that amount is $17 billion. Suppose the public cooperated with a "Buy American" policy of consciously trying to increase their U.S.-made purchases by only *one percent* of their total spending? For a family spending $20,000 a year, that would mean mentally setting aside a fund of $200. Then, when they are making their normal purchases and are about to buy foreign products, occasionally they would stop and decide "no, I will buy a U.S.-made one instead." If they continue over the year to make such choices until they reach the $200 goal, they will have achieved the one percent target with only a minimal personal sacrifice on their part. Business and government could adopt a similar policy even more easily. Set a goal of one percent of total expenditures. Then, as purchases of foreign products are considered, shift the purchase to U.S. products until the goal is met. Not everyone would be willing or able to cooperate. But, suppose the one percent goal was only three-fourths met? For the first quarter of 1985, one percent of real domestic demand was $17 billion, so three-fourths of one percent would have been $12.7 billion. A reduction of $12.7 billion in real imports would have left the net export figure *unchanged* from the fourth quarter at -$13.4 and U.S. real output would have been $12.7 billion higher. The annual rate of growth in real GNP would have been 4.5 percent. Therefore, a voluntary attempt to spend only *one percent* more on U.S. goods and services, even if it was only *partly* successful, would have insured U.S. output growth at a 4 percent or better annual rate in the first quarter. Broad acceptance of the attitude, "one percent more for the U.S.A.," would be sufficient to contain, and then reverse, the foreign trade problem over the course of the year. At the same time it would give the nation the opportunity to grow at a sufficient rate to yield high job growth and falling unemployment.

RLP

TABLE IV

Gross National Product and Demand in 1972 Dollars
(Billions of 1972 Dollars; Quarterly Data are Seasonally Adjusted Annual Rates)

	Fourth Quarter 1984	First Quarter 1985	Percent Change, Annual Rate
Gross National Product	$1,662.4	$1,668.0	1.3%
Personal Consumption Expenditures	1,075.4	1,087.9	4.7
Investment:			
Nonresidential Fixed Investment	213.8	215.6	3.4
Residential Fixed Investment	59.2	59.1	-.7
Change in Business Inventories	16.8	20.7	*
Government Purchases of Goods and Services	310.5	310.6	.1
Net Exports of Goods and Services	-13.4	-26.1	*
Domestic Demand			
Gross National Product	$1,662.4	$1,668.0	1.3%
Less: Net Exports	+ 13.4	+ 26.1	
Equals: Domestic Demand	$1,675.8	$1,694.1	4.4%

* Percent Changes are omitted since Change in Business Inventories and Net Exports are both net measures. Their growth rates are not comparable to those for the other categories, which are all gross measures.

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THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 299 May, 1985

Business in Virginia April, 1985 Data

The Virginia economy continues to climb steadily, clearly outdistancing the national economy. The heart of the State's well-being, employment, provides a good example. Nonagricultural employment Statewide in March was 4.7 percent above March 1984, while the national increase was 3.7 percent. For the first quarter our year-over-year growth was 4.9 percent versus 3.8 percent for the nation. The star sector remains wholesale and retail trade. There Virginia's growth in March was 6.4 percent, almost 32,000 more employees than last March, compared to a national gain of 4.8 percent. The same pattern holds true for the whole first quarter: Virginia trade employment growth was 6.8 percent versus 4.8 percent nationwide.

Employment growth has been weaker than expected in manufacturing, largely because of the first quarter surge in imports discussed in last month's issue. U.S. demand grew as expected by over 4 percent, but better than half of the increase in demand was satisfied by purchasing imports. The Commonwealth's manufacturing employment grew by .3 percent in March, with 1,200 more jobs than March 1984. That compares unfavorably to a 1.3 percent March increase in the nation's manufacturing employment. A longer term comparison is more encouraging. In 1984, Virginia's manufacturing employment was 14.7 percent above its 1981 high, while the national level was 2.9 percent below 1981. Therefore a State growth rate somewhat below the national rate in 1985 still would indicate better health in that sector here than nationally. For some of our industries, however, that is not much consolation. To tell a hospital patient that he is healthier than the person in the next bed doesn't stop the pain.

The stellar employment performance in wholesale and retail trade is more than matched by retail sales. Statewide Taxable sales growth rebounded to 13.5 percent in March, while a comparable measure of national retail sales was only 3.6 percent higher than March 1984. For April, the Bureau's sample of Virginia retailers reported a 6.5 percent gain while advance national figures for retail sales (excluding the automobile group) showed only a 4.0 percent growth. Our retail sales growth continues to reflect the above-average growth of income, employment, and population in Virginia. Still very much a "bootstrap" effect, with Virginians, both long-time residents and new ones, increasing their purchases at Virginia businesses. Plus there is the added bonus of tourist spending. The reports so far indicate a strong gain in Virginia tourism for 1985. On the other hand, the local demand growth for automobiles appears to have resumed its easing trend after the surge in March. The April gain in new car registrations was 6.4 percent, down from the 15.0 percent reported in March, and in line with February's 6.3 percent rate.

Lower interest rates and the general economic health also appear to be reigniting construction growth in Virginia. Building permits in April were up 33.3 percent compared to last year, and for eight of the individual areas covered the gains were over 100 percent. Plus, the Virginia Association of Realtors reported May 23 that "Virginia home sales rose 8.7 percent in April, 1985, compared to sales one year ago," and home sales activity for 1985 to date has exceeded the record pace in the first four months of 1984. Another welcome sign of present and future economic strength.

To gauge the present economic momentum of individual urban areas, two appropriate indicators are the growth rates in nonagricultural employment and retail sales. Compare those to the national rates to see if the specific area, like the State, is outpacing the nation. As shown in Table II, the March nonagricultural employment growth exceeded

Chart I

Nine Selected Business & Economic Indicators Percentage Change

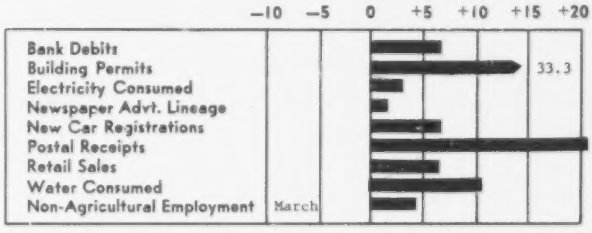

Chart II

City Indices

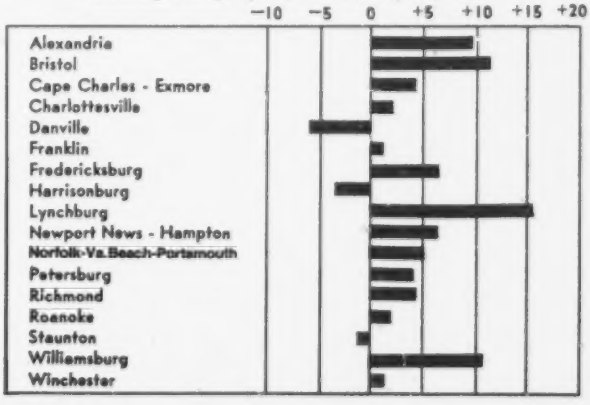

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TABLE I April, 1985

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The State		287.5	231.9	119.7	101.7	256.0	314.6	89.5	146.5	124.4
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Bristol	146.5	29.7	479.4	102.5	80.7	90.5	105.1	88.5	168.0	305.7
Cape Charles - Exmore	125.4	72.2	651.8	106.3	N.A.	88.6	N.A.	N.A.	120.9	194.8
Charlottesville	194.3	387.9	286.1	107.0	N.A.	118.8	104.2	119.2	231.7	320.1
Danville	130.3	N.A.	176.1	97.3	118.2	82.2	98.0	89.7	130.2	264.5
Franklin	137.7	N.A.	136.5	97.9	116.7	96.7	N.A.	95.0	137.4	268.9
Fredericksburg	204.8	95.3	322.8	N.A.	146.5	147.4	N.A.	62.6	212.7	439.0
Harrisonburg	154.7	38.9	465.4	N.A.	145.2	83.3	N.A.	129.3	144.3	292.3
Lynchburg	164.5	381.5	468.1	112.1	N.A.	118.6	95.3	125.4	171.6	643.6
Newport News - Hampton	125.5	N.A.	230.5	105.4	84.7	91.8	124.7	123.7	157.6	N.A.
Norfolk - Va. Beach - Portsmouth	171.4	287.2	266.6	131.0	90.6	109.2		68.6	266.9	N.A.
Petersburg	128.1	108.2	85.4	N.A.	39.0	63.3	115.3	95.0	158.6	223.7
Richmond	155.4	298.1	585.5	134.7	114.6	116.0		109.6	163.9	276.6
Roanoke	160.3	480.9	122.4	100.5	141.2	89.7	111.0	96.7	189.1	286.7
Staunton	126.6	138.5	65.3	N.A.	80.3	98.3	N.A.	N.A.	113.3	241.1
Williamsburg	168.7	164.1	150.2	144.0	N.A.	132.2	N.A.	99.8	133.6	404.4
Winchester	135.9	283.5	132.3	125.6	209.9	113.6	N.A.	119.6	N.A.	382.6

TABLE II April, 1985

Percentage Change from same month last year.

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	MARCH NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	MAR. RETAIL SALES ‡
The State		6.2	33.3	2.6	1.5	6.4	4.7	10.2	6.4	13.5
Alexandria	9.6	-2.9	120.8	4.2	N.A.	-10.4	8.3	16.0	15.3	18.9
Bristol	11.8	-21.9	460.1	-5.0	10.1	9.6	4.0	1.3	22.1	9.6
Cape Charles - Exmore	4.5	-39.5	78.0	4.1	N.A.	11.2	N.A.	7.9	1.2	10.3
Charlottesville	2.1	20.1	86.2	-4.1	N.A.	-8.1	4.4	16.2	2.8	-0.5
Danville	-6.1	N.A.	122.4	-4.4	1.5	-6.0	1.5	1.6	-11.7	8.9
Franklin	1.6	N.A.	1836.8	-1.9	3.5	-19.2	N.A.	0.9	9.3	103.0
Fredericksburg	6.7	12.4	374.9	N.A.	7.6	-9.5	N.A.	14.6	9.1	26.2
Harrisonburg	-3.0	-17.6	-42.9	N.A.	17.2	2.0	N.A.	7.0	-14.8	0.4
Lynchburg	15.2	-0.3	143.3	-1.3	N.A.	18.6	2.1	26.6	15.8	14.9
Newport News - Hampton	6.7	39.6	23.2	-0.1	1.1	8.2	4.8	23.1	4.9	8.0
Norfolk - Va. Beach - Portsmouth	5.0	14.1	-1.4	3.9	5.1	7.1		-5.8	8.2	12.0
Petersburg	4.3	9.4	2308.6	N.A.	-18.9	-12.3	1.7	12.5	14.9	11.2
Richmond	4.3	-2.4	305.7	4.3	-3.2	-4.6		23.1	3.5	17.1
Roanoke	2.1	49.0	52.9	3.7	-5.4	7.4	5.0	-1.9	3.6	13.8
Staunton	-1.3	24.2	-42.8	N.A.	-10.9	9.4	N.A.	N.A.	-1.6	4.5
Williamsburg	10.4	-8.3	4.4	4.8	N.A.	30.0	N.A.	13.8	4.6	24.7
Winchester	1.5	22.0	-22.2	4.0	15.6	-10.7	N.A.	-2.9	N.A.	-7.0

TABLE III

Percentage Change January - April from same period last year

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	JAN.-MAR. NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	JAN.-MAR. RETAIL SALES‡
The State		3.1	12.1	2.8	7.5	7.8	4.9	3.9	7.9	8.5
Alexandria	6.6	-8.1	84.6	3.2	N.A.	-4.0	9.6	10.2	10.0	12.4
Bristol	11.6	-19.8	138.7	-2.0	6.9	-7.7	3.4	5.7	26.0	0.2
Cape Charles - Exmore	-1.5	-30.4	2.3	-0.1	N.A.	-8.1	N.A.	1.0	-0.5	3.5
Charlottesville	0.7	14.3	-73.5	0.7	N.A.	-2.0	5.3	2.4	1.0	-8.8
Danville	-3.0	N.A.	-60.9	-3.6	10.6	-13.6	1.5	4.7	-6.3	-1.1
Franklin	2.1	N.A.	509.3	0.9	-0.1	-6.5	N.A.	1.5	6.2	12.9
Fredericksburg	3.1	2.2	126.9	N.A.	9.4	4.8	N.A.	1.9	0.8	16.6
Harrisonburg	2.6	0.4	-13.7	N.A.	10.5	19.6	N.A.	3.5	-6.0	4.1
Lynchburg	10.7	-11.4	45.4	-1.5	N.A.	4.2	1.0	0.9	20.2	1.8
Newport News - Hampton	10.4	-2.3	10.2	2.9	8.5	-1.2	5.0	13.0	16.6	11.1
Norfolk - Va. Beach - Portsmouth	8.0	25.3	-3.2	4.9	11.5	2.4		-4.3	13.8	12.4
Petersburg	7.9	-9.9	7.5	N.A.	-11.1	-13.0	1.9	1.9	23.2	8.5
Richmond	5.9	-0.5	116.3	3.3	3.4	-1.5		10.6	8.6	9.2
Roanoke	2.2	6.1	65.5	3.0	5.6	2.8	5.3	-6.8	3.5	0.9
Staunton	-2.0	16.4	164.5	N.A.	-4.8	3.0	N.A.	N.A.	-2.7	9.2
Williamsburg	5.5	-18.5	-18.2	5.4	N.A.	1.2	N.A.	-4.4	10.3	34.3
Winchester	1.9	13.2	-21.3	0.2	15.0	-4.6	N.A.	-2.9	N.A.	4.2

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.

#Virginia Employment Commission data which lags behind current reports.

†Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.

the national 3. 7 percent rate in 5 of Virginia's 8 Metropolitan Statistical Areas (MSAs). Only the Danville, Richmond-Petersburg, and Lynchburg MSAs fell below that guideline. Looking to the March taxable sales growth rates which are reported for all 17 areas, only three had growth rates below the 3.6 percent national rate: Winchester, Charlottesville, and Harrisonburg. Therefore the overall momentum appears to be widely dispersed across the Commonwealth.

Some comments by area. First, the State's 8 MSAs, then the other areas. The Northern Virginia MSA (Alexandria in the tables) continues to show booming growth in all sectors except new car sales. Still the State's leading MSA. The Roanoke MSA performance remains strong in employment and construction, and the March rebound in taxable sales growth enhances the summer outlook. Hampton Roads, on both sides of the James River, continues to report above average growth with the exception of building permits on the Norfolk side. The Richmond-Petersburg MSA is experiencing even more rapid growth in retail sales, and building permits skyrocketed in both portions of the MSA. The only crucial laggard is nonagricultural employment growth, still below 2 percent in March. The Bristol MSA displayed renewed growth in April by nearly all measures. That type of broad upswing generally is followed by sustained growth. In the Charlottesville MSA, the performance continues to be mixed. Strong employment growth and a low 4.2 percent unemployment rate, but retail sales in general have been flat or down for most of 1985. Building permits rebounded in April, hopefully a leading indicator of more balanced growth. The Lynchburg MSA shows very strong growth in all types of retail sales and a surge in building permits. Manufacturing employment remains flat, below our predictions, because the increase in domestic manufacturing orders expected by the end of February has been delayed by the surge in imports. Under these circumstances, the 2.1 percent employment growth in March is a very respectable accomplishment. In the Danville MSA, employment growth was only 1.5 percent, and the overall employment rate was 9.3 percent, in March. Retail sales have not yet shown a sustained upward movement in 1985. The most hopeful indicator is the April increase of 122.4 percent in building permits.

In other specific areas, Williamsburg is in high gear with strong gains in the early part of the tourist season. Taxable sales growth has been very high, and employment growth in both the City and James City County was 4.6 percent in March. Franklin has had a phenomenal jump in building permits and retail sales, although new car sales are down. Employment growth in the Franklin Labor Market Area (LMA) has not yet responded — it was 1.4 percent in March. The Fredericksburg area continues to grow strongly in retail sales, other than new cars, and building permits soared in April. This LMA's employment growth was 3.8 percent in March, a healthy rate. The Eastern Shore, Cape Charles-Exmore, turned in its best monthly performance so far in 1985. However, employment in March still was .7 percent below last year, with an area-wide unemployment rate above 7 percent. The weakest recent economic performance has been in the Shenandoah Valley, hitting the Winchester, Staunton, and Harrisonburg areas. In Winchester, taxable sales were down 7.0 percent in March, and the LMA's employment was only .8 percent above last March. For April, new car sales and building permits were down. The Staunton area also was flat or down by most measures, and March employment was slightly below a year ago. Harrisonburg, too, has suffered a generally flat or declining performance, and the Labor Market Area's employment in March was 3.9 percent below the 1984 level. Hopefully this summer the Valley will regain some of the momentum being enjoyed by most of the Commonwealth's urban areas.

RLP

An Editorial on Tax Reform

The public presently is focusing on tax reform, seemingly with a "let's do it" attitude. What an amazing shift since last November, when the Treasury's tax reform proposal was greeted by the public with concern, shock, or apathy. In a December speech, my view was the Treasury proposal, now dubbed "Treasury I," was one of the largest "red herrings," or preliminary prospectus, in history with no more than a 20 percent chance of being adopted. The May final prospectus is very different, in some cases a 180-degree turn, from Treasury I and seems mild by comparison. The comments in the May 29 *Washington Post* say it best. Henry Aaron, a senior fellow at the Brookings Institution, was quoted as saying "This proposal has a very different character. It promises significant improvements, not a revolution. All in all, I think we would have enjoyed the movie if we had not read the book [Treasury I]." Greg Ballentine, a former Treasury Department official, probably was more on target with his comments: ". . . if you hadn't heard of the November proposal and suddenly the President had said we'll have top rates of 35 percent for individuals and 33 percent for corporations, we would have all said: This is tremendous. Call it change, call it overhaul, call it what you will, but it is truly dramatic." The President's proposal is dramatic in its own right, even though less far-reaching than Treasury I. Plus it is a revolution in the true sense of a turning back, moving toward a simpler tax structure with a different philosophy. For 30 years we have endured attempts to fine-tune the Revenue Act of 1954 in search of an income tax code which is all things to all people. The result is a bewildering tax structure which few consider to be fair or efficient, and which has been losing voluntary acceptance among the public at an alarming rate. Roscoe L. Egger, Jr., the Commissioner of Internal Revenue, stated in 1983 that "Voluntary compliance has slid down the scale. In hard cash the difference between the tax owed and the tax paid is more than $80 billion each year. Tax cheating is generally regarded as a minor infraction, not something shameful or the least bit embarrassing. In some sense, it's becoming the taxpayer's revenge against an unfair system." The new philosophy which has been emerging is that fairness means equal taxes for equal income, with far fewer exceptions based on the sources of income, activities, or special circumstances of the individual or company. The President's proposal is not the epitomy of that philosophy, but it does represent a major step in that direction.

The President has launched an aggressive campaign in support of tax reform. One major reason some type of reform does have a chance of being adopted this year is President Reagan is moving with a rising tide in Congress, a tide building on the earlier efforts of such people as Representative Jack Kemp (R-N.Y.) and Senator Robert Kasten (R-Wis.), the authors of the Kemp-Kasten Bill; and Senator Bill Bradley (D-N.J.) and Representative Richard Gephardt (D.-Mo.), cosponsors of the Bradley-Gephardt bill. Not to mention Representative Dan Rostenkowski (D-Ill.), Chairman of the House Ways and Means Committee, who is a strong advocate of tax simplification and reform. However, the essential ingredient is your vocal support. In the Democratic response to President Reagan's May 28 speech, Dan Rostenkowski described this need eloquently, so I will quote at length:

> "Big special-interest lobbies have already joined forces against reform. The campaign to divide Congress has begun.
>
> The battle for reform will be long and tough. It has been fought by Congress and lost before. In the past,

we have been divided and beaten by the legions of special interests — each demanding protection in the name of jobs or national security or economic growth.

In the end, tax reform comes down to a struggle between the narrow interests of the few and the broad interests of working American families. Today the only voices we in Congress hear are those determined to stop reform.

We need to hear your voice.

We will lose this battle if America remains silent. Apathy is the fatal disease of reform. The odds makers are betting that working men and women will not answer the call. They're betting that once again a vocal minority can whip a silent majority.

The President needs your support — and has asked for it. I, as chairman of the Ways and Means Committee and a Democrat, need your support. And I'm asking for it too.

If you've never stood up for your rights as a taxpayer — if you've never voiced your frustration and anger over the unfairness of today's tax system — sit down and write a letter to your representative and senator. And stand up for fairness and lower taxes."

President Reagan has thrown down the gauntlet. In his Williamsburg speech on May 30, the President said, "After all, goes [the people's] thinking, what's immoral about cheating a system that is itself a cheat? This isn't a sin, it is a duty. Our Federal tax system is, in short, utterly impossible, utterly unjust, and completely counter-productive. It has earned a rebellion, and it is time we rebelled." With your letters and vocal support, not just now but continually until final passage of a new tax code, the rebellion can take the productive form of a simpler, fairer tax law which the average person will comply with more willingly. If you remain silent and special interests whittle the tax reform initiative down to another cosmetic ornament added to the existing mantle, the rebellion still will go on — but in a self-destructive form. Individual tax cheating and non-compliance will continue to escalate, undermining the very foundations of our government and society.

Personally, I favor a tax reform plan which differs substantially, in approach and structure, from the President's proposal. But that is not the issue to me. The issue is the need for major reform of the existing tax law. The President's proposal, the Kemp-Kasten or Bradley-Gephardt bills, or a package that more closely resembles Treasury I —any of these would be simpler and, once the phase-in and adjustment by the public is completed, more equitable and efficient than the present tax system. Therefore I strongly agree with President Reagan's closing statement on May 30, "America, go for it." RLP

Let Us Know

July 1 marks the end of my first year as Acting Director of the Bureau of Business Research. During that year we have been evaluating potential new formats for the Virginia Business Report. We now have access to more comprehensive and varied databases than in the past, and both the Bureau and the College currently are developing additional computer capacity and flexibility. Therefore changes will become possible without inordinate cost in time or money. Our question is what will best meet the needs of our subscribers? In June each of you will receive a questionnaire asking for your views on the present format and possible alternatives. Please take a few minutes to complete and return it — we need to hear from you. RLP

The Virginia Business Report is published monthly except in December by the Bureau of Business Research. The publication is provided free of charge as a public service. For information call the Bureau at (804) 253-4493.

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BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 300 June, 1985

Business in Virginia May, 1985 Data

The data now available for April and May generally reveal an easing in the year-over-year growth rates for Virginia although the advances remain strong. Among the ten economic indicators we report, seven showed lower growth. The three exceptions were electricity consumed, newspaper advertising linage, and new car registrations. The new car sales growth has been fluctuating widely in the last four months, and May produced another rebound to double-digit growth, a 17.2 percent year-over-year increase. That brings the cumulative January-May gain to slightly more than 10 percent above last year, a remarkable performance which may not continue throughout 1985 in spite of lower interest rates and strong dealer promotions.

Building permits in May grew by 21.9 percent, well below last month's 33.3 percent gain but still substantially above the average growth for the year to date. The continuing month-to-month volatility in the growth rates for individual cities as well as the frequent reports of monthly increases exceeding 100 percent indicates commercial building plans still are strong in many parts of the State. Coupled with the rising demand for residential housing, the outlook for construction and construction-related businesses remains very favorable for the summer.

The taxable sales data reported for April show a 12.3 percent rise from April 1984, slightly lower than the 13.5 percent March increase. However, Virginia's taxable sales growth continues to be far higher than the national rate. A comparable national measure, retail sales excluding the automobile group and not seasonally adjusted, was only 5.3 percent higher in April 1985 than last April. Retail trade growth remains one of the Commonwealth's main strengths. But, a comparison of taxable sales information with our retail sales sample, primarily of general merchandise retailers, implies that nondurable goods demand has been weakening recently. The taxable sales growth appears to be fueled more strongly by rising demand for building supplies; home and commercial furnishings; and services such as lodging, a reflection of growing tourist visitation. The net effect of such a demand shift would be positive for Virginia since a high percentage of these goods and services are produced here. But, some industries and retailers will be adversely affected if such a shift has indeed occurred and endures in the coming months.

Nonagricultural employment growth in April followed the pattern of earlier months: high growth, 4.3 percent year-over-year, but again a slight decline from the previous month's 4.7 percent. Virginia's 4.3 percent gain again was above the national growth rate of 3.5 percent. That high job growth still must be attracting new residents to Virginia, and creating ripple effects for nearly all types of businesses.

Reviewing the individual urban areas' performances as measured by the nine indicators reported in Table II and supplemented by overall employment data for the areas for which nonagricultural employment data are not available, the picture is more mixed this month. Only the Northern Virginia (Alexandria) and Newport News-Hampton areas achieved growth rates in the top one-half among all 17 areas for all of the economic indicators. The other 15 areas are reporting growth in most of the measures, but each had a weak performer or two by comparison to the other urban areas. High growth across-the-board appears to be becoming more difficult to achieve from month to month in most of the State, a development which is consistent with the gradual slowing of overall growth observed for the Commonwealth. We continue to achieve healthy gains, but the effort required to do so is increasing.

RLP

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change May, 1985 from May, 1984

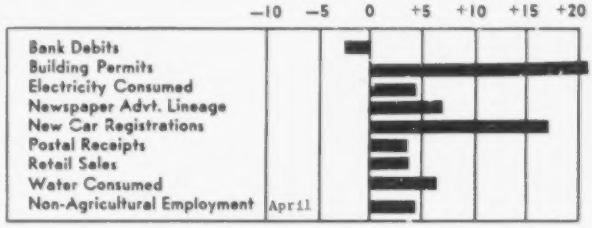

Chart II

City Indices

Percentage Change May, 1985 from May, 1984